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SUBJECT: MACEDONIA: SCENESETTER FOR CODEL POMEROY

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Sensitive but unclassified. Please protect accordingly.

¶1. (SBU) Summary: Ambassador Philip Reeker and team warmly welcome Congressman Pomeroy and his delegation to the Republic of Macedonia. Unfortunately, the Ambassador will not be able to greet you at the airport. Michael Fritz, Mission Director of USAID Macedonia will meet you and accompany you to the hotel. Ambassador Reeker is looking forward to seeing you at the dinner that evening. Your visit comes as Macedonia's path toward Euro-Atlantic integration (America's long-standing foreign policy goal for the country) remains stalled due to the "name issue" with Greece. Uneasy interethnic relations, problems with rule of law and corruption, and sluggish follow-through on economic reform are all exacerbated by the blockage of entry into NATO and the EU. The work that the HDP is doing with the Macedonian Parliament to increase its ability to perform its oversight function is of high importance. End summary.

Euro-Atlantic Integration...

¶2. (SBU) U.S. policy toward Macedonia has been consistent over its two decades of independence: Euro-Atlantic integration as a stable, multiethnic, multi-faith democracy. With an occasionally alienated 25% ethnic-Albanian minority, a limited domestic market, and its location in a Balkan region in transition, Macedonia can in the long run ensure its prosperity and stability only by joining NATO and the EU and undertaking the reforms that membership in these organizations requires. We dovetail U.S. assistance and diplomatic efforts closely with others in the international community, especially the EU and OSCE, who maintain significant missions here. The U.S., EU, NATO, and OSCE are the guarantors of the Ohrid Framework Agreement, which ended the 2001 civil conflict. USAID's program in Macedonia was to end in 2011 but is now planned to extend to at least 2015. Assistance for FY 2010 Q including USAID, DOJ, and security assistance Q totals about \$25 million, primarily geared toward rule of law, democracy and good governance, economic growth, education, counterterrorism, and military reform.

...Remains Blocked

¶3. (SBU) The ongoing "name issue" with Greece has stopped Euro-Atlantic integration in its tracks. Athens blocked an otherwise unified decision in April 2008 at Bucharest to offer Macedonia membership in NATO, and also blocked the EU from opening accession negotiations with Skopje in December 2009, pending a solution to the dispute. Despite U.S. and European diplomatic efforts with both sides -- and significant activity by UN Mediator Matthew Nimetz and direct talks between Prime Ministers Papandreou and Gruevski Q the issue remains unsolved. Both the Greeks and Macedonians have not helped matters by injecting essentially irresolvable questions of Macedonian "identity" into the name dispute.

## Excellent Security Cooperation

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¶4. (SBU) Macedonia has been a steadfast ally in international peace support operations for a number of years. Since 2002, a total of 1264 Macedonian troops have served with ISAF in Afghanistan, and 490 Macedonian troops served in Iraq until the end of 2008, when the new SOFA with Iraq mandated the departure of most coalition members. As of April, an additional 79 Macedonian soldiers will deploy with the Vermont National Guard's 86th Brigade Combat Team, bringing the total number of Macedonian troops in Afghanistan to 242. The 2010 Macedonian contribution to ISAF almost doubles Macedonia's commitment and by per capita population comparison places Macedonia in the top five of all forty-two ISAF contributing nations. Additionally, Macedonia provides small contingents in support of the EU peacekeeping mission in Bosnia and Herzegovina (medical team, legal advisor), KFOR (Host Nation Logistic Support Team), and the UN mission in Lebanon (Staff Officer).

## Economy Lags Behind

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¶5. (SBU) Macedonia has lagged behind the rest of former Yugoslavia in transitioning to a market economy. The country has managed to maintain macroeconomic stability with low inflation, but lags behind the region in attracting foreign investment and creating jobs. Macedonia's economic challenges are exacerbated not only by the lack of Euro-Atlantic integration and a tiny domestic market, but also by ongoing problems with rule of law (including direct political interference in the judiciary and apparently politically-motivated prosecutions), corruption, lack of implementation of reforms, and lack of follow-through by the government even when presented with potential foreign investors.

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¶6. (SBU) Official unemployment remains high at 31.7%, but may be overstated based on the existence of an extensive gray market -- estimated to be more than 20% of GDP -- that is not captured by official statistics. In the wake of the global economic downturn, Macedonia has experienced decreased foreign direct investment, a lowered credit rating, and a large trade deficit, but lack of integration and relatively strict financial regulations meant that the banking sector escaped significant shocks. Macroeconomic stability was maintained due to a prudent monetary policy, which kept the domestic currency pegged to the Euro, at the expense of increasing interest rates. GDP fell in 2009 by an estimated 1.5%.

## Political Situation/Interethnic Relations

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¶7. (SBU) Prime Minister Gruevski's government has been in power since 2006 and is still relatively popular (in part due to a weak and discredited opposition), but it has been unable or unwilling to effectively tackle the challenges outlined in this cable. Interethnic relations which boiled over into the civil conflict in 2001 which was resolved with the Ohrid Framework Agreement remain fractious. While Gruevski does have the largest ethnic-Albanian party, Ali Ahmeti's DUI, in his coalition, we see a continuous low boil of issues related to the use of the Macedonian and Albanian languages in the schools and in official contexts, the allocation of or lack thereof of public resources in primarily ethnic Albanian areas of the country and, most importantly, lack of progress on the name issue and therefore on Euro-Atlantic integration. The otherwise-fractured ethnic Albanian political spectrum agrees that NATO (and less so EU) membership is the best way to guarantee their rights as full citizens in Macedonia. The ethnic Albanian leadership, particularly Ahmeti, are willing to be patient, but not forever.

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